

USDA Foreign Agricultural Service

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Global Agricultural Information Network

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### Chengdu Emerging City Market Report

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**Report Highlights:**

Chengdu, the capital city of Sichuan Province, is the economic, cultural, financial and political center of Sichuan Province. It also serves as a logistics hub and the most prosperous and affluent city in Southwest China. With China's broad "Go West!" development plan, the city is undergoing tremendous changes and rapid economic development. Rising incomes are creating significant opportunities for U.S. exports in this emerging market. Despite the fact that distribution network remains the primary obstacle for imported food products, sales of imported goods are expected to continue growing with great opportunities outlined in this report.

## General Information:



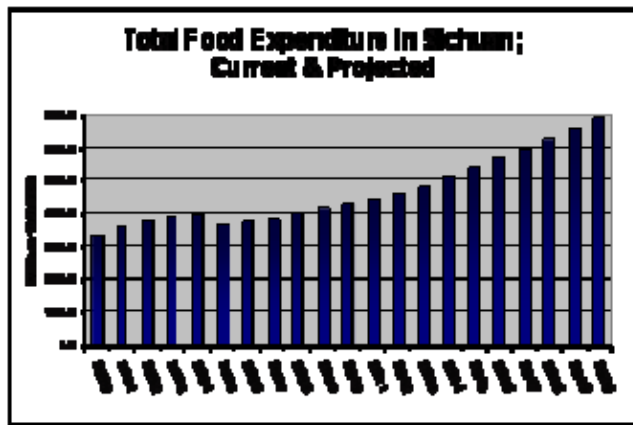
## Chengdu Briefing

Chengdu, the capital and cultural center of Sichuan province, is a prime target for U.S. agricultural exports as an emerging city market in China's heartland. It is the wealthiest and most advanced city in Southwest China. Even though Chengdu accounts for only 14 percent of Sichuan's population, it made up 32 percent of the province's GDP in 2010. Its prosperity, high standard of living, and quality of life have given the city a reputation of being a place easy to move to, but hard to leave. The rapidly-expanding market offers exporters a market with double-digit growth rate, increasing demand for imports, less market saturation than the major coastal

city markets.

Chengdu at a Glance 2010	
Province	Sichuan
Population	14.2 million
Land Area	12,130 km <sup>2</sup>
Gross Domestic Product (GDP)	\$ 87.01 billion
GDP per capita	\$ 6,465.98
Per capita disposable income	\$ 3,265.73
Growth in per capita disposable income	16.22 %
Tourism Revenue	\$ 9.47 billion
Hotel and Food Services Revenue	\$ 1.92 billion
Total Import	\$ 10.76 billion
Total Import from USA	\$ 2.98 billion
Total Export	\$ 13.87 billion
Total Export to USA	\$ 1.43 billion
Source: Chengdu Statistical Yearbook 2011	

Chengdu city has a population of 14.2 million and a GDP of US \$ 87 billion in 2010 with double-digit growth of 27 percent from a year earlier, making it the largest economy in Sichuan and the second largest economy in Central and West China, after Chongqing Municipality (population 33 million). The economic growth the region is experiencing is raising incomes and increasing market for foreign products. The per capita disposable income in Chengdu reached USD \$3,265 in 2010, an increase of 16 percent from 2009. The rapid economic development is fueling increased expenditure on food and beverage sales. Global Insight estimates that in real terms, total food consumption in Sichuan province has increased nearly 28 percent from 2000 to 2010. This trend is expected to continue, as Sichuan's food expenditure is projected to increase 61 percent from 2010 to 2020.



Source: Global Insight

an increase of 21 percent over the previous year.

Since 1991, the service industry has been the dominant contributor to Chengdu's economy. In 2010, it accounted for 50.2 percent of Chengdu's GDP, with the primary and secondary industries accounting for 44.7 percent and the agriculture sector 5.1 percent. Tourism is one of the pillars of Chengdu's service industry. The number of domestic tourists to Chengdu reached 68 million in 2010, with tourism revenue of \$9.47 billion, an increase of 25.4 percent from 2009. Chengdu serves as a jumping-off point for tourism attractions in Sichuan Province, Tibet, and other scenic destinations in the Southwest.

Chengdu is an important education and research and development center in China with abundant advanced human resources. There are 42 colleges and universities in Chengdu and a total of 589,000 university students at the end of 2010. Chengdu is also one of the nation's fourteen service outsourcing base cities and one of the world's top fifty emerging global outsourcing cities. Since 2001, the service outsourcing industry in Chengdu has experienced rapid growth, with an average annual growth of over 45 percent. The total revenue of Chengdu's service outsourcing industry reached \$258 million in 2010, increased 158 percent from the previous year.

Tourism and foreign investment have led to increased interest in foreign food culture and imported food products. Chengdu, an attractive business development center, found itself on the shortlist of the "Top Ten Asia-Pacific Cities of the Future 2011-2012 for Foreign Direct Investment (FDI) Strategy" ranking published by FDI Intelligence magazine owned by The Financial Times in London. The ranking uses a mixture of data

## Hometown of Pandas: A Center for Business and Travel in Southwest China

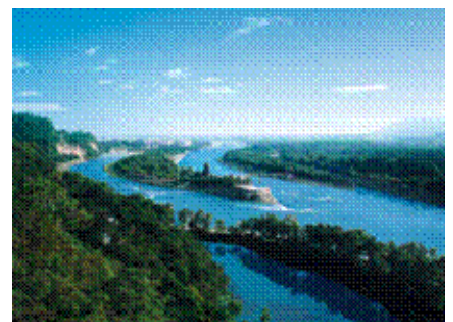
Chengdu has six pillar industries: electronic information, pharmaceuticals, food processing (including tobacco), machinery (including automobile and aerospace), petrochemical, metallurgy and building materials. In 2010, these industries generated a value-added industrial output of \$32 billion,



Chengdu Chunxi Road Shopping Area



Crowds at Sugar & Spice Trade Show



Dujiangyan Irrigation Project



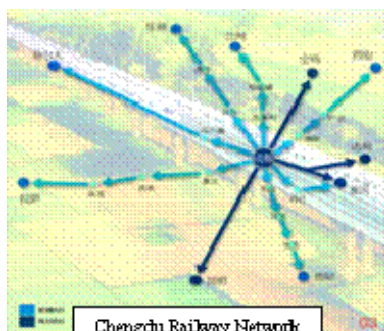
and expert opinion to rank cities that have the best prospects for inbound investment, economic development, and business expansion. The shortlist was created through independent data collection by professional institutes across 141 Asia-Pacific cities. Chengdu is the only Chinese inland city on the list, and it has attracted investment from more than 189 Fortune Top 500 enterprises in recent years.



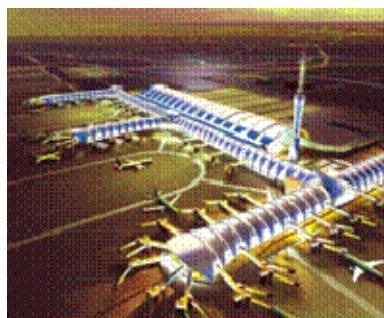
Logistics Centers around Chengdu



Logistics Hub in Southwest China



Chengdu Railway Network



New Airport Terminal Complex 2012

This business presence has fueled demand for conferences, exhibitions, trade shows and other events. There are over 30 international trade fairs, exhibitions or conferences held in Chengdu annually. The top two are the Sugar & Spirits Trade Show (Tang Jiu Hui), the most important domestic trade show for wine, spirits and food products, and the Western China Fair (Xi Bo Hui), which mainly focuses on industry, tourism, and investment. The 2011 Tang Jiu Hui alone attracted 3600 exhibitors and generated about \$3 billion worth of contracts. The booming meeting, conference, and exhibition industries help bringing business people and tourists from all over the world, making Chengdu a more open and international city. This internationalization and modernization is also rapidly influencing local lifestyles, including food culture. The sales of hotels, food services and tourism usually increase over 30 to 40 percent during the trade fairs. In 2012, local hotel sources confirmed 60 percent of annual revenue is attained during the one week period leading up to Tang Jiu Hui.

Chengdu has a rich cultural heritage. It is the center of Shu culture and historically the political, economic, and cultural center of Southwest China. This is apparent in the architecture of its historical structures, the abundance of artifacts, its unique culture of leisure, the local food and its ethnic customs. The capital city is known as the birthplace of tea culture and a major tea production base in China, but also has the largest number of tea houses in the country. In addition, Chengdu is one of the cradles of the Sichuan opera which has a long history. One of its distinguishing features is the art of “Bianlian” (“changing faces” masks), a fascinating and unique skill which involves incredible dexterity and keeps audiences spellbound.

Chengdu is a famous scenic city for tourists to Southwest China. It is characterized by its legacy from the Shu Kingdom and the Three Kingdom Period at the end of the Han Dynasty. Famous tourist destinations of the city include Wuhou Temple, Du Fu Thatched Village, Wolong Panda Nature Reserve and the Jinsha Site Museum. Around Chengdu, there are also popular tourism spots such as Mount Emei, Leshan Giant Buddha, Dujiangyan Irrigation Project and Jiuzhaigou Natural Park.



## **Transportation & Logistics Infrastructure**

Transportation infrastructure is rapidly developing in Chengdu and its surrounding areas, making the way for increased imports. The Chengdu government has started construction on three logistics parks and four logistic centers surrounding Chengdu including: Qingbaijiang Logistics Park, International Containers Logistics Park, Xinjin Logistics Park, Shuangliu Airport Logistics Park, Longquan Logistics Center, Xindu Logistics Center, Shuangliu Logistics Center and a bonded logistics center in Chengdu's new high-technology development zone. After completion of the above logistics projects, Chengdu will effectively meet the Central Government's goal of serving as the "logistics hub" and distribution center for the Southwest and parts of West China.

In 2010, Chengdu's Shuangliu International Airport was ranked the sixth in China in terms of annual passenger and freight throughput, with passenger throughput of 25.76 million, which makes it the busiest airport in Western China. While official figures are not yet published, Chengdu's airport is very likely to surpass Shenzhen Baoan Airport to become the fourth busiest airport in China for 2011. When the second terminal and new cargo terminal open in 2012, Chengdu Shuangliu's annual passenger throughput will increase to 38 million and freight cargo capacity is estimated to increase to 700,000 tons by the end of 2012, 900,000 tons over the next five years. Chengdu currently has 7 direct and 12 code-share international flight routes and plans to open 30 more international direct flights, including cargo flights. The Chengdu Transportation Committee is working closely with United / Continental Airlines to open a direct flight between Chengdu and the West Coast of the United States in the near future. Once opened, it will be the first direct flight to the United States from central or west China and will certainly increase export of U.S. agricultural products, especially perishable products, to Chengdu and the Southwest China region.

Chengdu also serves as an important railway hub in Southwest China. Ports of entry and exit for rail transportation to and from Chengdu for imports and exports include Shanghai, Shenzhen, Tianjin, Qingdao, and Lianyungang. There are four major cargo railways, starting or running through the city: the Chengdu-Chongqing Railway, the Baoji-Chengdu Railway, the Chengdu-Kunming Railway and the Chengdu-Dazhou Railway, which can currently handle 300,000 containers per year. The Chengdu Railway Container Center that is currently under construction will boost annual capacity to more than 1 million containers and 12 million tons of cargo by the end of 2013. In 2010, over 300,000 tons of U.S. frozen meat products were brought into Chengdu via railway containers from Guangdong Province and this number is expected to be doubled or even tripled once the new cold chain logistics centers and parks mentioned above put into operation.

Chengdu has one of the highest densities of expressways in China. Total expressways in Chengdu reached 462 kilometers in 2010. There are currently three expressways leading to seaports: two Chengdu-Chongqing-Shanghai expressways and the Chengdu-Beihai expressway. Ship containers of U.S. agricultural products are brought into Chengdu from Shanghai or Beihai city of Guangxi Province through expressways by temperature controlled trucks.

Although Chengdu has no direct access to the Yangtze or any other large river, imported products can be brought in via container boats through nearby port cities of Chongqing, Leshan, and Luzhou, which are reachable from Chengdu within hours by highway. A new large-scale port infrastructure development project on the Yangtze River should also increase the volume of trade via the water to

Southwest China.

## **Passion for Food**

In 2010, Chengdu was named a “City of Gastronomy” by United Nations Educational, Scientific, and Cultural Organization (UNESCO), the first and only city in Asia to earn such a distinction. Sichuan food is one of the four internationally recognized styles of Chinese cuisine (Sichuan cuisine, Guangdong cuisine, Jiangsu cuisine and Shandong cuisine). Hotpot (Huo Guo), which is similar to fondue, where restaurant goers cook their own meat and vegetables in hot broth or oil, is the most famous food in Chengdu. In addition, Chengdu’s special local snack food (Xiao Chi) is highly reputed for its unique colors, aromas, shapes and tastes, including Couple Lung Slice, Lai Tangyuan (glutinous rice-flour balls served in soup), Longchaoshou (dumpling soup - known as ‘wonton’ in north China), and Dandan noodles to name a few.

Sichuan residents are keen to try imported products and are willing to pay a premium for quality, reliability, and food safety. As incomes have increased and tastes have been influenced by western food culture, consumers are more attentive to food safety and food nutrition.



**Delicious Sichuan Food**

The people of Chengdu have the propensity to try new foods and incorporate into local cuisine. A “new Sichuan cuisine” has evolved from traditional Sichuan cooking over the past few years. This new cuisine puts increased emphasis on food nutrition and the inclusion of non-traditional and imported ingredients. There has been a tremendous increase in western-style inputs, like dairy products and imports, including meats and seafood. As one of the most well-known styles of Chinese cooking, Sichuan plays a leadership role in food trends and influences both the national and other regional markets. There has also been an increase in foreign food establishments in

Chengdu.

## **Chengdu Market For Imported Products**

### **Less Market Saturation = Less Competition**

As an interior emerging city market, Chengdu’s market has less import penetration than more developed port cities. This provides several advantages to marketing products in Chengdu and other emerging city markets. New imports face less foreign competition than in the developed port cities, despite burgeoning demand. This first-to-market advantage means that marketing dollars go further, as it is less costly to build a market share without steep competition and maintain it than to try to break into one of the mature city markets.

## **Market Entry: Opportunities and Challenges**

### **Opportunities/ Advantages:**

- Huge market with great demand potential for imported products with growing middle class

consumers

- The retail market for imported products is developing rapidly in Chengdu and retail outlets are increasingly perceived as cleaner and safer than traditional wet markets
- Hotel sector receptive to imported food and beverage products
- Increasing awareness of U.S. food products and less competition than in developed cities
- Local residents are interested in trying new food products and open to adapt and incorporate new food ingredients into their own cuisine
- “New Sichuan Cuisine” displays willingness to incorporate imported food ingredients and seasoning products into the more traditional Sichuan cuisine
- Food safety becomes the most important factor for food choice among consumers and U.S. products are valued for safety and quality

### Threats / Challenges:

- Strong competition from both local products and imported products from other countries
- Limited importers/distributors or suppliers of U.S. food products
- Lack of importer and retailer knowledge and training in purchasing, handling and merchandising U.S. products
- Limited infrastructure and distribution, lack of stable cold chain infrastructure
- Distance from port cities
- IPR violations threaten product reputation and market share
- Impact of local trade policy change

### Retail Sector:

Chengdu Retail Market at a Glance (December, 2011)			
Targeted Clientele	Retailer	Ownership	# Outlets
HRI & Upper Middle Income	Metro	German	1
Upper and Upper Middle Income	Ito Yokado Dept. Store	Japanese	5
	Isetan Dept. Store	Japanese	1
	Wang Fu Jing Dept. Store	Chinese	1
	Renhe Spring Dept. Store	Chinese	1
	Far Eastern Dept. Store	Taiwan	1
Middle and Upper Middle Income	Carrefour	French	5
	Auchan	French	3
	Lotus	Thailand	1
Lower and Middle Income	Trust Mart	Taiwan/U.S.	10
	Wal-Mart	U.S.	3
	Century Lian Hua	Chinese	5
	Beijing Hua Lian	Chinese	4
	Ren Ren Le	Chinese	13
	Cheng Shang Group	Chinese	3
	My Home Mart (Mei Hao Jia Yuan)	Chinese	17
Convenience Stores	Chengdu Hong Qi	Chinese	1200 +
	Chengdu Hu Hui	Chinese	300 +

	Chengdu Wowo	Chinese	300 +
	Chengdu Wu Dong Feng	Chinese	300 +
	7 - Eleven	Japanese	50
	Sabrina's Country Store	Chinese	2

Hypermarkets targeting the upper income and upper middle income levels are the most promising segment of the retail market for introducing imported products. Chengdu upscale hypermarkets include: Metro, Ito Yokado, Isetan, Renhe Spring, and Wang Fu Jing. These stores have the highest saturation of imported products. Sales of imported products in these hypermarkets represent 8 to 10 percent of revenues, with room for expansion. Predominantly wealthy Chinese consumers purchase these imported products. In Chengdu, there is a relatively small expatriate community (compared with Beijing or Shanghai), and only an estimated 15 to 20 percent of revenues from import sales are generated by foreigners. The market share of imported products in supermarkets and hypermarkets targeting middle to lower income consumers, such as Trust-Mart, Wal-Mart and Ren Ren Le, imported products is generally less than 1 percent of sales.

Convenience stores have experienced rapid growth in recent years and major players are trying their best to occupy as many locations as possible to get higher market share. Local convenience store retailer giant Hong Qi has been aggressively expanding their number of stores by opening a new store every two days. Major competitors Hu Hui and Wowo are also expanding very fast with the number of stores almost doubling in 2012 over 2011. However, there are limited imported products available in these convenience stores. A local import-only store called "Sabrina's Country Store" has a good variety of food products, cleaning supplies, and spices, and mainly targets expatriate consumers. Sabrina's currently has two locations in Chengdu. The international retailer giant 7-Eleven, which is regarded as world's largest convenience retail chain, entered Chengdu market in early 2011. As of the date of this report, there are 50 stores in Chengdu and plans to expand in Chengdu and surrounding cities. 7-Eleven's presence will undoubtedly introduce a new sales format to Chengdu's convenience stores. Local stores will have to change in order to survive in this new competitive environment, and more high quality imported convenience food products will gradually make appearances.

### **- Degree of Centralization of Purchasing Determines Method of Entry into Upscale Hypermarkets**

The first step to entry into the hypermarket sector is to ascertain the degree of centralization of the purchasing department. Retailers with less centralized purchasing systems give their individual store managers more control over the products that are on their store shelves. In general, it is necessary to work with the retailer's national import manager, their principle importers, and individual store purchasing managers.

### **- Retailer Fees Can Increase Cost of Selling Product through Certain Retailers**

Some retailers are known to increase the cost of doing business by charging slotting fees, shelf fees, and festival fees. Some retailers charge promoters fees to have promotions in their stores, while others simply ask that the promoter provide the product to be given out in samples.





USA Commodity Festival Promotion in Chengdu

## **- In-Store Promotions Essential for Success in Hypermarket Sector**

In-store promotions like sampling, recipe cards, video, and chef demonstrations are critical to introduce products, especially new-to-market imported products. Consumers are eager to try new, unfamiliar products, but if they do not find uses for the product the first time they purchase it, they are unlikely to purchase it again.

## **Hotel, Restaurant, and Institutional (HRI) Sector:**

In Chengdu, the most promising segments of the HRI sector for U.S. agricultural imports are five-star hotel restaurants and high-end restaurants. Chengdu's robust economy and international exposure set the stage for a large expansion in the hotel industry. The number of international 5-star hotels has more than doubled in the last 5 years and includes Starwood Hotels and Resorts Worldwide, Inc., Intercontinental Hotel Group, ACCOR Group and Shangri-la Group. The increased number of international hotels in Chengdu has expanded the opportunities for U.S food products.

In addition to the international hotel chains, Chengdu also has several regionally known 4 and 5 star hotels including Jinjiang Hotel, Tibet Hotel, and Minshan Hotel. Increased competition from their international counterparts has pushed local brands to upgrade hotel management, hotel facilities, and food service. Service and food quality have also been improved drastically.

Chengdu has the most developed upscale stand-alone restaurant sector in Southwest China. As fine dining restaurants become more prevalent and establish reputations for quality and safety, they will increasingly compete with hotel restaurants. In Chengdu, the majority of fine dining establishments specialize in Chinese cuisine; however, the number of international fine dining restaurants has been increasing in the past few years. Food service revenue in Chengdu reached \$1,261 million in 2010, 26 percent up from the year of 2009.

## **- Local Residents Turn to Hotel Restaurants for Prestige, Safety, and Convenience**

Food and beverage managers in Chengdu estimated that the majority of customers in hotel restaurants are local residents as opposed to in-house guests. Hotel restaurants are held in high esteem as high-end establishments. Hosts earn face (respect from their guests) by selecting a hotel restaurant as a dining venue. The food safety and quality associated with international hotel chains also attracts residents to hotel restaurants. Convenience is another motivating factor. Dining in the hotel restaurants saves time for business travelers at conferences. Hotel restaurants have benefitted from the increase in the number of outside business visitors as the Southwest emerging city markets continue on the path of rapid economic growth. Five-star hotels are also major landmarks that are easy to find, making them optimal places to meet.



U.S. Seafood Products Promoted at a Hotel Restaurant Promotion in Chengdu



Great American Food Promotion at a Chengdu Five Star Hotel Restaurant

## - Restaurants Promotions Often Showcase Imported Products

Food service makes up a significant portion—roughly one third—of hotel revenues in Chengdu. In 2010, food service revenue increased 29 percent from previous and accounted for \$235 million of Chengdu's total hotel revenue of \$660 million. Room revenue accounted for \$331 million.

Given the significance of food service revenues to hotels, short-term promotions are an important way for hotel restaurants to attract the attention of consumers. Successful promotions can boost restaurant traffic significantly. Five-star hotels and upscale restaurants are constantly working to differentiate themselves from their competition. Promotions often feature foreign guest chefs and luxury food and beverage products, which are often imports. Holidays, like Christmas and Thanksgiving where 400 - 600 RMB per plate meals sell out, are common times for promotions.

## - Low Cost Nature of Institutional Food Service, Quick Service Restaurants (QSR) a Challenge to Imports

Imports generally are not competitive in the institutional food service sector or the QSR sector due to its low cost nature. Most caterers are unfamiliar with imported products. In general, the catering industry in Chengdu focuses on providing lunch box foods. Commodity pricing ranges from \$1.2 to \$ 2.5 per unit.

QSR and chain restaurants have been rapidly expanding in Southwest China, but opportunities for imports are limited because both foreign and Chinese QSR chains predominantly use domestic sources to keep costs down.

## Market Entry Strategy

Imported meats and produce face strongest competition from domestically produced products as the Southwest provinces are major agricultural producers. Lack of dependable cold chain and the transport time from port cities is a major obstacle. The majority of fruits, vegetables, and meat products offered in hypermarkets and supermarkets are locally produced. U.S. wine faces competition from numerous European and Latin American wines already present in the market. Post found that Canada, Denmark, and Norway are aggressively promoting their seafood products in the Chongqing and Chengdu hotel sectors.

An effective way to promote U.S. products is differentiating U.S. products' quality, safety, and value from local products and its foreign competitors. The growing number of affluent consumers in Southwest China are willing to pay a premium for a superior product. In response to safety and quality concerns, the presence of "green food," viewed by some consumers as equivalent to organic,

in the supermarkets has exploded. Superior quality and safety helps to differentiate U.S. products from their domestic counterparts. This is critical when competition is strong, as it is for meats, fruit, and vegetables. For this reason, it is important that the integrity of imported products be maintained throughout the distribution chain from port city to emerging city markets. Further development of cold chain infrastructure is essential for maintenance of refrigerated product quality.



IPR Violation in China: KFC VS KFG

### **- Intellectual Property Rights (IPR) Violations Pose a Threat to U.S. Product Reputation**

Throughout China, fraudulent labeling in the food sector is a problem, and Southwest China is no exception. An estimated 20 to 30 percent of products are counterfeit. IPR violation harms the reputation for quality and safety held by imported U.S. products and cuts into market share. Protecting intellectual property is a critical part of doing business in China. Avoiding infringement requires patent, copyright, or trademark registration with the appropriate Chinese registration office. Companies must also be proactive in pursuing enforcement mechanisms available to halt infringers.

### **- Getting Your Product to Market: Local Distributors, Importer-Direct, and Regional Distribution Centers**

Selecting the most suitable distribution method with regard to the type of product and target market is crucial. There are three main channels for distributing food products to Southwest China: local distributors that purchase their product from port cities and then sell their products to retailers; regional distribution centers, normally associated with a single chain retailer; and importer direct, when retailers often work with a referred importer to bring products in directly from the port. Within the HRI sector, regional distribution centers are used primarily by quick service restaurant (QSR) chains, such as Yum! Brands, Inc. and McDonalds, for purchasing and logistics. Importer-direct is sometimes used by hypermarket and supermarket chains with less national presence or the hotel sector for specialty or highly perishable products, like some meats. Most imported meat is frozen.

Products directly purchased from port city importers and shipped directly to retailers or their central distribution centers are largely cash transactions. A significant quantity of imported products is purchased by local distributors from port city importers and then sold to the retail market. Most transactions with local distributors are carried out on a credit basis. Local distributors take on some of the retail risk by agreeing to the returns of expired or unsold products.

The importer (agent, distributor, or joint-venture partner) would usually take care of the customs clearance including gathering necessary documents, submitting documents to Chinese Customs. Documents required may include a bill of lading, invoice, shipping list, customs declaration form, insurance policy, and sales contract as well as other safety or quality licenses or certificates.

### **- Distributor Selection Important to Ensure Product Quality and Safety**

It is imperative to determine that distributors have good cold chain facilities and shipping practices

to ensure that product quality is maintained during shipping. Marketing U.S. products in China requires exporters to make certain that distributors are familiar with proper handling of unfamiliar imported products. Some local distributors have cold chain storage facilities with older-generation models that lack sufficient moisture and temperature controls necessary to maintain product quality on a consistent basis. Building close relationships with reliable distributors is highly beneficial, especially with the emphasis placed on relationships in Chinese business culture.

### **- Labeling and Marking**

Based on China's new Food Safety Law, effective June 1 2009, imported pre-packed food should have labels and instructions in Chinese. The State Administration for Quality Supervision, Inspection, and Quarantine (AQSIQ) also requires imported food items such as candy, wine, nuts, canned food, and cheese to have labels verified and products tested for quality. According to the Food Labeling Standards of China, imported foods should have clear markings that indicate the country of origin, in addition to the name, address and contact information of the general distributor or agent registered in China. For more information on import requirements to China, please see the annual Export Certificate Report published by the Office of Agricultural Affairs in Beijing.

### **- Trade Policy**

Import tariff rates in China are divided into six categories: general rates, most-favored-nation rates, agreement rates, preferential rates, tariff rate quota rates and provisional rates. As a member of the WTO, imports from the United States are assessed at the most-favored-nation rate. According to China Customs Order 954, the Administrative Regulation on Examination and Determination of the Dutiable Value of Imported and Exported Goods China Customs is tasked with assessing a fair valuation to all imports. On top of normal tariff duties, both foreign and domestic enterprises are required to pay value-added taxes and business taxes. Food items containing certain food additives deemed harmful to human health by the Ministry of Health or food products from a certain high risk food contamination area or region are banned for entry.

### **- Select Best Product Prospects**

Interest in health, safety, and high-end gourmet products has increased with increased income levels. Consumers are increasingly buying produce from supermarkets and hypermarkets instead of traditional wet markets because they are perceived as cleaner and safer.

Post finds that these trends have led to opportunities for specific products. Health conscious products have been especially popular with the Chinese consumers. Red wine and olive oil have been widely accepted by Chinese consumers. Imported dairy products have increased in popularity due to the Chinese melamine dairy scandal in 2009, but dairy products face strong competition from New Zealand, Australia, and EU producers already in the market.

<b>Selected U.S. Imported Products</b>	<b>Main Foreign Competitors</b>	<b>Domestic Competition</b>
Red Meat	Canada, Denmark, New Zealand, Australia	Sichuan pork production, though lower quality
Poultry: esp. chicken paws & wing tips	Brazil, Argentina	Hunan

Oranges	New Zealand, South Africa	Chongqing, Sichuan
California Table Grapes	Chile, Peru	Xinjiang (seasonal)
Washington Apples	Chile, New Zealand	Hunan, Shandong
Cherries	New Zealand	Sichuan, Shandong
Breakfast Cereal	United Kingdom, Australia, EU	NA
Cheese and Dairy	New Zealand, Australia, EU	Domestic milk competition, little cheese production
Frozen Processed Products	Canada, New Zealand	NA
Wine	Australia, France, Italy, Spain, Chile	Xinjiang, Yunnan, Shandong; generally lower quality
Spaghetti sauce/tomato products	Italy, France, EU	NA
Coffee	Japan, France, South Africa	NA
Candy and Chocolate	Switzerland, Italy, France, Belgium, Japan	NA
Nuts	Iran (pistachios), Mongolia, Korea (chestnuts) Russia	Xinjiang
Seafood	Russia, North Korea, Canada, Norway, Japan	Zhejiang, Fujian, Little high quality competition, small scale farmed salmon operation in Sichuan province
Ginseng	Canada, Korea	Jilin
Dried fruit	France and Italy (prunes)	Xinjiang, especially raisins
Baby food/infant formula	New Zealand, Switzerland	NA
Premium Ice Cream	France, New Zealand	NA

While there is strong local competition for meats, fresh vegetables, and fresh fruits, there is demand for specialty products, organic, and “green” produce. U.S. imported produce could be successful if it is successfully marketed as a high value product. U.S. muscle meats, as well as chicken paws, wing tips, and other non-muscle meats are strong prospects, especially if sold as a high value product.

Hotels and high end restaurants use imported products primarily because of food safety and quality concerns or to differentiate themselves from the competition with specialty items. When comparable local products are available, hotels are unlikely to use more expensive imported products. Post finds that luxury or specialty products are especially strong prospects when reliable distribution networks are established. Food promotions that focus on American regional cuisine are promising, as well as food and wine pairing events. Demand from the HRI sector for Western products such as spices, condiments, and cheeses is expanding rapidly and few local substitutes are available.

**- Select U.S. Agricultural Products Present in the Market Which Have Good Sales Potential:**

Soybeans

Poultry, especially chicken paws and wing tips

Nuts

Fresh fruits: oranges, California table grapes, apples, cherries

Dried fruits, especially prunes and raisins

Wheat

Breakfast cereal



Dairy products  
Seafood  
Spaghetti sauce / tomato products  
Candy and chocolate  
Baby food / infant formula  
Premium ice cream  
Coffee  
Potato and potato products

**- Select U.S. Agricultural Products Not Present in Significant Quantities Which Have Good Sales Potential:**

Wine  
Alcoholic beverage  
Red meat  
Organic products  
Frozen processed products  
Ginseng  
Specialty condiments / spices

**Further Information and Contact:**

Agricultural Trade Office, Chengdu  
Western Tower Suite 1222,  
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Chengdu, China 610041  
Tel: 86-28-8526 8668  
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